

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: May 22, 2008
POSITION: Neutral
SPONSOR: Department of General Services

BILL NUMBER: SB 1681
AUTHOR: J. Battin

BILL SUMMARY: State Surplus Property

This bill would revise existing statutes that govern the conditions and procedures by which the Department of General Services (DGS) may dispose of surplus land.

FISCAL SUMMARY

To the extent specified properties are determined to be surplus and subsequently sold, the state would receive additional revenue. The properties would be subject to Proposition 60A, and proceeds would be deposited into the Deficit Recovery Bond Retirement Sinking Fund Subaccount and used to pay off the Economic Recovery Bonds. However, at this time any estimate of proceeds is premature.

COMMENTS

The Department of Finance is neutral on this bill. However, we note the following:

- This bill would authorize the Director of DGS to dispose of surplus property through a sell, lease, or exchange agreement. This bill does not define "exchange", which could result in an acquisition of property which should be subject to the property acquisition laws and State Public Works Board oversight.
- By decreasing the time that a local agency has to provide written notification of intent to purchase and negotiate an agreement to purchase specified surplus property, this bill could unnecessarily restrict local agencies ability to identify and negotiate the acquisition of state surplus property.
- This bill would require DGS to give priority to the development of low-income housing when considering multiple offers to purchase any designated surplus properties.

Existing law does the following:

- Requires DGS to offer land that has been declared surplus by the Legislature, and that is not needed by any state agency, to local agencies, first, and private entities and individuals, second, subject to specified conditions.
- Requires surplus land to be sold at fair market value except for properties with the following specified purposes: parks and recreation; open-space; low or moderate income housing; local government uses; and, public schools, subject to specified conditions.
- Allows a period of up to approximately 340 days for DGS and a local agency to execute a sales agreement.
- Authorizes the Director of Housing and Community Development to request DGS to retain surplus property for up to 5 years if that property is deemed suitable for low to moderate income housing.

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COMMENTS (continued)

Analyst/Principal (0671) N. Brady	Date	Program Budget Manager Karen Finn	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

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- Requires that a state agency disposing of surplus residential property must offer that property for sale in a specified order. Generally, that single-family residences shall be offered first to former owners and second to present occupants. Furthermore, low to moderate income occupants shall be offered the property at an affordable price, as defined.

This bill would do the following:

- Allow DGS to dispose of surplus state real property by sale, lease, exchange, a sale combined with an exchange, or other manner of disposition of property, as authorized by the Legislature, upon any terms and conditions and subject to any reservations and exceptions that DGS deems to be in the best interest of the state.
- Require DGS to offer surplus property to local agencies prior to being offered for sale to private entities or individuals. When considering multiple offers, DGS must give priority to proposals for the development of low-income housing.
- Provide that local agencies shall notify DGS of their intention to acquire the property within 60 days and demonstrate that the property, or a portion of the property, will be used by the local agency for open space, public parks, affordable housing projects, public schools, or development of local governmental-owned facilities.
- Stipulate that a sales agreement shall be executed by the local agency within 60 days after DGS determines the local agency is to receive the property. Also, the sale must be completed and title transferred within 60 days from the date the local agency executes the sales agreement. If the specified timeframe is not met, this bill would authorize DGS to proceed with the disposal process to private entities or individuals.
- Require that the disposal of surplus property to any local agency shall be at "fair market value" as established by an appraisal and economic evaluation conducted or approved by DGS. If more than one local agency desires the property, the fair market value shall be the highest price offered above that value. Furthermore, it permits DGS to sell surplus property to local agencies at less than fair market value if DGS determines that such a discount is needed to accomplish the financing of the housing project.
- Specify that the Legislature may authorize a particular surplus property be sold at less than fair market value and provides that 30 days prior to executing such a transaction, DGS must report the following information: the financial terms of the transaction; a comparison between the fair market value and the financial terms; and, the basis for agreeing to terms and conditions other than fair market value.
- Make conforming and code maintenance changes to provisions of the Government Code relating to the disposition of surplus property by the state and local entities.

This bill would streamline the process in which DGS disposes of surplus property. While concern might arise at the shortened period for local agencies to indicate a desire to acquire any surplus property, there is the possibility that sales will consummate quicker thereby enabling the state to close a greater number of surplus sales in a given year. Any additional revenue to the state would be used to pay down the Economic Recovery Bonds, and eventually put revenues into the General Fund reserve.

Currently, after DGS has provided a written notification of its intent to sell specified surplus property, a local agency has up to 60 days to provide written notification of their intent to purchase. If DGS and the local agency are unable to arrive at a mutually acceptable sales price within 180 days after written notification of the agency's intent to purchase, the local agency shall hire a third party appraiser to assess value of the specified surplus property. If the local agency and DGS are still unable to agree on a purchase price

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COMMENTS (continued)

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10 days after receipt of the third party appraiser's assessment, the matter shall go before the State Public Works Board for a resolution. If at any time during this process a mutual purchase price is achieved, DGS and the local agency have 90 days to execute a sales agreement. The current process can last up to a year before DGS can offer surplus property to private entities through a competitive bid process.

		SO	(Fiscal Impact by Fiscal Year)						
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							Fund
Type	RV	98	FC	2007-2008	FC	2008-2009	FC	2009-2010	Code
1606/Sale Pub Lnd	RV	No	-----	See Fiscal Summary				-----	3090
<u>Fund Code</u>	<u>Title</u>								
3090	Deficit Recovery Bond Retirement Sinking								